



Final Minutes

Endowment Fund Investment Regular Board Meeting February 12, 2018

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Conference Room at 816 W. Bannock Street, Ste. 301, Boise, Idaho on February 12, 2018. Chairman M. Dean Buffington called the meeting to order at 9:05 a.m. Chairman Buffington noted there was a quorum.

Member's Present:

Dean Buffington
Representative Anderson (*arrived 11:30 a.m.
and departed at 1:00 pm*)
Warren Bakes
Gavin Gee
Irv Littman
Gary Mahn
Richelle Sugiyama

Member's Absent:

Jerry Aldape
Senator Winder

Staff Present:

Chris Anton
Chris Halvorson
Michelle Watts
Liz Wieneke

Legal Counsel:

Julie Weaver

Guests:

Janet Becker-Wold, Callan
Susan Buxton, DHR
Paul Spannkebel, DHR
Mary Hughes, Dept of Finance
David Groeschl, IDL
Kari Kostka, IDL
Michael Pearson F&G
Greg Servheen F&G
Rhet Hulbert, Clearwater Advisors
Justin Sheehan, Aberdeen
Martin Connagham, Aberdeen

Hard copies of board materials were mailed and delivered five days prior to the scheduled board meeting and a meeting notice and agenda were posted on the door of the EFIB office on February 8, 2018.

Board Meeting Minutes

Mr. Bakes moved to approve the minutes of the November 21, 2017 regular meeting. The motion was seconded by Ms. Sugiyama and approved unanimously.

Chairman Buffington announced that Mr. Gee has agreed to serve on the Compensation Committee. Other members of the Compensation Committee include; Mr. Bakes, Mr. Littman, and Senator Winder. Chairman Buffington asked the Compensation Committee to complete the review of the Manager of Investments and submit their recommendations through the appropriate channels.

Aberdeen Asset Management Global Equity (Mr. Sheehan, Client Service Representative, and Mr. Connagham, Portfolio Manager)

Aberdeen provided an update on the merger of Aberdeen Asset Management and Standard Life. Mr. Sheehan stated the overall organization will continue to evolve as a result of the merger, but the global equity team remains unchanged and operates independently. Mr. Connagham discussed the investment performance of the global equity strategy as well as the portfolio structure and strategy. Aberdeen continues to maintain a high conviction value orientated portfolio. Mr. Connagham discussed the factors that resulted in underperformance vs. benchmark in 2013 and 2015 and described their risk monitoring programs. He stressed the importance of finding a balance between risk mitigation and the need to take risks to add alpha to the portfolio.

Investment Performance – 4th quarter 2017 (Janet Becker-Wold)

Global Manager Discussion:

Ms. Becker-Wold answered questions about Aberdeen Asset Management Global Equity Strategy.

Endowment Fund Performance Update: The endowment portfolio posted a 4.15% return for the quarter ended December 31, 2017. Performance was consistent with the benchmark and ranked in the 22nd percentile relative to public fund peers and 25th percentile relative to endowment and foundation peers.

The endowment portfolio posted a 17.09% return for the year ended December 31, 2017. Performance was 0.74% over the benchmark and ranked in the 19th percentile relative to public fund peers and 36th percentile relative to endowment and foundation peers.

State Insurance Fund (SIF) Performance Update: The SIF portfolio posted a 0.95% return for the quarter and 5.00% return for the year ended December 31, 2017.

Portfolio Asset Allocation Review:

Ms. Becker-Wold reviewed Callan's updated capital market assumptions. Ms. Becker-Wold then presented a set of unconstrained asset allocations that were optimized around the efficient frontier. The unconstrained optimizations suggested increasing the allocation to international equities to further diversify equity exposure away from the United States, add currency diversification and to increase the probability of success through active management. Callan and the EFIB staff recommended reducing domestic equity on a pro rata basis by 4.2% and increasing international equity by 3.8% and global equity by 0.4%.

Details of the proposed change are as follows:

Proposed Changes

- Unconstrained optimizations indicate a higher international equity allocation than in the Current Target
- Mix 3 suggests a 10% reduction in U.S. Equity with 8% additional to International Equity; 3% to Real Estate and a 1% reduction in Fixed Income
- Callan and EFIB Staff do not feel the need to modify the Fixed Income and Real Estate allocations at this time
- We do, however, feel that a modest increase in International Equity has merit for the reasons articulated in the Observations
- Proposal: Move 4.2% from Domestic Equity as noted in the accompanying chart:
 - 3.8% split between WCM and Schroders
 - 0.4% to Global Equity
 - Provides rounded targets for each major asset class

	Current	New	Change
Domestic Equity	42.2%	38.0%	-4.2%
NTGI S&P500 Index	12.7%	11.4%	-1.3%
Sands Capital	5.5%	5.0%	-0.5%
LSV Asset Management	11.0%	9.9%	-1.1%
TimeSquare Cap Mgmt	4.2%	3.8%	-0.4%
Systematic Financial	4.2%	3.8%	-0.4%
Eagle Asset Mgmt	2.3%	2.1%	-0.2%
Barrow, Hanley	2.3%	2.1%	-0.2%
International Equity	15.2%	19.0%	3.8%
SSGA MSCI EAFE	2.0%	2.0%	0.0%
WCM Inv Mgmt	6.6%	8.5%	1.9%
Schroders QEP Int Val	6.6%	8.5%	1.9%
Global Equity	8.6%	9.0%	0.4%
Aberdeen (Wellington?)	4.3%	4.5%	0.2%
Fiera Capital	4.3%	4.5%	0.2%
Real Estate	8.0%	8.0%	0.0%
R Reef America REIT II	4.0%	4.0%	0.0%
USB Trumbull Prop	4.0%	4.0%	0.0%
Fixed Income	26.0%	26.0%	0.0%
SSGA - Aggregate Bond	22.0%	22.0%	0.0%
SSGA - TIPS	4.0%	4.0%	0.0%
	100.0%	100.0%	0.0%

Mr. Littman moved to approve the revised asset allocation. The motion was seconded by Mr. Bakes and approved by a vote of 3-2. Ms. Sugiyama and Mr. Gee voted against the motion.

Update on Callan Strategic Reinvestment Study:

Ms. Becker-Word updated the Board on the progress of the Strategic Reinvestment Study. She noted IDL updated their timber revenue forecast and they were in the process of analyzing the revised data. The study is expected to be completed soon. Mr. Anton proposed an EFIB Special Board Meeting in March to discuss the results with the goal of presenting the study to the Board of Land Commissioners in April.

Mr. Anton agreed to work with representatives from Callan and the Department of Lands and the EFIB Board to schedule the special board meeting in March.

New Investment Fund for Idaho Department of Fish and Game ("IDFG")

IDFG requested EFIB provide investment management services for two additional endowments. The initial endowments will consist of \$6.7 million for the operation and maintenance of existing mitigation properties owned and managed by IDFG and \$1.1 million for operation and maintenance of restored habitat near Albeni Falls Dam. Disbursements from these accounts will be at the discretion of the Director of IDFG and be consistent with agreements signed by the State of Idaho and Bonneville Power Administration. IDFG acknowledges the investment strategy used by EFIB for the endowment fund is suitable for the management of these new endowments and agreed to reflect that acknowledgement in the agreement with EFIB and in an annual certification. The EFIB board

discussed and confirmed its authority to provide investment management services for these new endowment funds. Mr. Pearson and Mr. Servheen from IFG addressed the Board and answered questions.

Ms. Sugiyama moved to authorize staff to establish two additional endowments. The motion was seconded by Mr. Bakes and approved unanimously.

Investment Strategy for Idaho Parks and Rec (IPR)

EFIB staff requested authority to invest IPR portfolios in the endowment fund investment pool. EFIB staff met with IPR representatives to discuss investing the Trail CDA and Ritter Island endowments in the endowment fund investment pool. The IPR representatives have indicated that they support the transition of their investments from passive index funds into the endowment fund investment pool and that the investment strategy used by EFIB for the endowment fund investment pool is suitable for their needs.

Ms. Sugiyama moved to authorize staff to invest IPR portfolios in the endowment fund investment pool. The motion was seconded by Mr. Bakes and approved unanimously.

Investment Management for Other Agencies (Julie Weaver, Deputy Attorney General)

Ms. Weaver provided an update on House Bill 460. House Bill 460, if approved, modifies section 57-720 of the Idaho Code to provide EFIB with the authority to invest funds donated, granted or gifted to an Idaho public agency and held as a trust or endowment. Idaho public agencies include, but are not limited to, municipalities, districts, political subdivisions, political or public corporations and public charter schools. House Bill 460 does not change the ability of EFIB and the State Board of Land Commissioners to approve or deny requests for investment management services.

Mr. Anton was asked to monitor House Bill 460.

The Board asked that the EFIB staff meet annually with each of its clients (State Insurance Fund, Idaho Parks & Rec, Idaho Department of Fish & Game, Department of Environmental Quality) and request certification that they consider the asset allocation appropriate, assume and are aware of the investment risks and will notify EFIB if their investment goals and objectives change.

Recognition of Mary Hughes

Chairman Buffington thanked Mary Hughes for her service on the EFIB board. He presented her with a letter signed by the State Board of Land Commissioners and provided her with a plaque from the EFIB.

Respectful Workplace - (Susan E. Buxton, Esq., DHR Administrator)

Ms. Buxton discussed the importance of maintaining a respectful workplace. She discussed harassment, mediation, investigations and retaliation claims.

Chairman Buffington encouraged staff to contact the Attorney General's office or him if they are uncomfortable reporting a problem to the Manager of Investments or a board member.

Cash Equitization Program – (Rhet Hulbert, Clearwater Advisors)

Mr. Hulbert discussed the process of daily rebalancing the endowment fund portfolio using futures contracts.

Annual Review of EFIB Policies

Mr. Anton presented an overview of staff's suggested changes to the existing policies.

Ms. Sugiyama moved to approve all changes proposed by EFIB staff with the following suggestions: 1) no change to page 147; 2) page 150 "Scheduled Work Hours" language be consistent with DHR policy; 3) Investment Office title be consistent throughout document. The motion was seconded by Mr. Bakes and approved unanimously.

EFIB Staff Review of Procedures and Internal Controls

Ms. Watts presented the cash management process.

Ms. Watts presented the school bond guaranty process.

Mr. Halvorson presented the manager transition process.

EFIB Staff Reports

Mr. Anton presented the financial update.

Mr. Anton provided an update on legislation.

Mr. Anton presented the gift log.

Mr. Anton presented on upcoming issues including the consultant RFP process.

Independence Requirement Statement

Mr. Anton distributed independence requirement statements for the Board members to sign.

Adjournment

There being no further business to come before the Board, Mr. Buffington declared the meeting adjourned.

The meeting adjourned at 3:02 p.m.